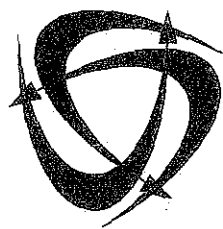


CITY OF NORTONVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018



Berry Kingston & Utley PSC
Certified Public Accountants

**CITY OF NORTONVILLE, KENTUCKY
PRINCIPAL OFFICIALS
JUNE 30, 2018**

**MAYOR - COUNCIL MEMBERS
AS OF of JUNE 30, 2018**

Carolynn Sturt.....Mayor
James Braden.....Council Member
James Noel.....Council Member
James Harrison.....Council Member
Lucille Putty.....Council Member
Rebecca Mosby.....Council Member
Kristal Stanley.....Council Member

PERSONNEL

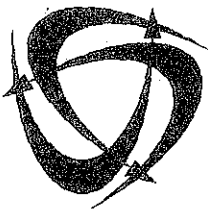
Chris Rodgers.....City Clerk



CITY OF NORTONVILLE, KENTUCKY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor Scotty Harvey
and Council Members
City of Nortonville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nortonville, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nortonville, Kentucky, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (OPEB)*. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the pension and other post employment benefits schedules on pages 42 - 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

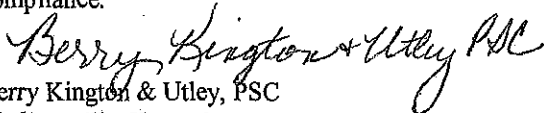
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nortonville, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements/schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements/schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements/schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020, on our consideration of the City of Nortonville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Nortonville, Kentucky's internal control over financial reporting and compliance.


Berry Kingston & Utley, PSC
Madisonville, Kentucky
October 28, 2020

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Totals |
| Assets | | | |
| Cash equivalents | \$ 487,735 | \$ 167,876 | \$ 655,611 |
| Accounts receivable (net of allowance) | 74,441 | 144,867 | 219,308 |
| Unbilled revenue | 19,913 | 26,429 | 46,342 |
| Inventory | - | 21,968 | 21,968 |
| Prepayments | 2,702 | 5,034 | 7,736 |
| Internal balances | 288,847 | (288,847) | - |
| Restricted assets: | | | |
| Cash equivalents | - | 376,909 | 376,909 |
| Capital assets (net of accumulated depreciation) | <u>876,814</u> | <u>6,513,145</u> | <u>7,389,959</u> |
| Total Assets | <u>1,750,452</u> | <u>6,967,381</u> | <u>8,717,833</u> |
| Deferred Outflows of Resources | | | |
| Related to pensions and other post employment benefits | <u>16,582</u> | <u>48,715</u> | <u>65,297</u> |
| Total Assets and Deferred Outflows | <u>1,767,034</u> | <u>7,016,096</u> | <u>8,783,130</u> |
| Liabilities | | | |
| Accounts payable | 10,454 | 50,771 | 61,225 |
| Accrued payroll and related expenses | 1,065 | 3,571 | 4,636 |
| Accrued interest payable | - | 64,506 | 64,506 |
| Customer deposits | 215 | 29,699 | 29,914 |
| Current portion of long-term debt | - | 182,655 | 182,655 |
| Noncurrent liabilities: | | | |
| Notes and bonds payable (net of discount) | - | 4,147,010 | 4,147,010 |
| Net pension and other post employment benefits liabilities | <u>42,446</u> | <u>139,205</u> | <u>181,651</u> |
| Total Liabilities | <u>54,180</u> | <u>4,617,417</u> | <u>4,671,597</u> |
| Deferred Inflows of Resources | | | |
| Deferred property tax revenue | 16,954 | - | 16,954 |
| Related to pensions and other post employment benefits | <u>21,015</u> | <u>58,678</u> | <u>79,693</u> |
| Total Deferred Inflows of Resources | <u>37,969</u> | <u>58,678</u> | <u>96,647</u> |
| Net Position | | | |
| Net investment in capital assets | 876,814 | 2,183,480 | 3,060,294 |
| Restricted for: | | | |
| Debt service | - | 129,748 | 129,748 |
| Municipal aid and Cemetery | 117,952 | - | 117,952 |
| Customer deposits | 215 | - | 215 |
| Perpetual care cemetery | 6,320 | - | 6,320 |
| Unrestricted | <u>673,584</u> | <u>26,774</u> | <u>700,358</u> |
| Total Net Position | <u>\$ 1,674,885</u> | <u>\$ 2,340,002</u> | <u>\$ 4,014,887</u> |

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|-------------------------|--|--|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary Government | | | | | | | |
| Governmental activities | | | | | | | |
| General government | \$ 156,757 | \$ - | \$ 5,957 | \$ - | \$ (150,800) | \$ - | \$ (150,800) |
| Public safety | 22,103 | - | 28,964 | - | 6,861 | - | 6,861 |
| Public streets | 26,501 | - | 28,401 | - | 1,900 | - | 1,900 |
| Library | 7,680 | - | - | - | (7,680) | - | (7,680) |
| Cemetery maintenance | 118 | - | - | - | (118) | - | (118) |
| Interest on long-term debt | 648 | - | - | - | (648) | - | (648) |
| Depreciation | 73,661 | - | - | - | (73,661) | - | (73,661) |
| Total governmental activities | <u>287,468</u> | <u>-</u> | <u>63,322</u> | <u>-</u> | <u>(224,146)</u> | <u>-</u> | <u>(224,146)</u> |
| Business-type activities | | | | | | | |
| Water distribution | 294,525 | 297,382 | - | 52,189 | - | 55,046 | 55,046 |
| Sewer distribution | 603,060 | 548,328 | 19,752 | 28,365 | - | (6,615) | (6,615) |
| Total business-type activities | <u>897,585</u> | <u>845,710</u> | <u>19,752</u> | <u>80,554</u> | <u>-</u> | <u>48,431</u> | <u>48,431</u> |
| Total Primary Government | <u>\$ 1,185,053</u> | <u>\$ 845,710</u> | <u>\$ 83,074</u> | <u>\$ 80,554</u> | <u>(224,146)</u> | <u>48,431</u> | <u>(175,715)</u> |
| General Revenues and Transfers | | | | | | | |
| Taxes | | | | | | | |
| Insurance premium taxes | | | | | 133,102 | - | 133,102 |
| Property taxes | | | | | 75,966 | - | 75,966 |
| Occupational taxes | | | | | 30,838 | - | 30,838 |
| Franchise taxes | | | | | 32,211 | - | 32,211 |
| Other taxes | | | | | 3,736 | - | 3,736 |
| Transfers | | | | | 28,365 | (28,365) | - |
| Investment income | | | | | 296 | 145 | 441 |
| Miscellaneous | | | | | 103,976 | 1,173 | 105,149 |
| Total general revenues and transfers | | | | | <u>408,490</u> | <u>(27,047)</u> | <u>381,443</u> |
| Change in Net Position | | | | | 184,344 | 21,384 | 157,297 |
| Net Position - Beginning (as restated) | | | | | 1,490,541 | 2,318,618 | 3,809,159 |
| Net Position - Ending | | | | | <u>\$ 1,674,885</u> | <u>\$ 2,340,002</u> | <u>\$ 4,014,887</u> |

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2018

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|------------------------------|---|---|
| <u>Assets</u> | | | |
| Cash equivalents | \$ 363,463 | \$ 124,272 | \$ 487,735 |
| Due from other funds | 288,847 | - | 288,847 |
| Taxpayer assessed revenues receivable | 74,441 | - | 74,441 |
| Prepaid insurance | 2,702 | - | 2,702 |
| Grants receivable | <u>19,913</u> | <u>-</u> | <u>19,913</u> |
| <u>Total Assets</u> | <u>\$ 749,366</u> | <u>\$ 124,272</u> | <u>\$ 873,638</u> |
| <u>Liabilities and Fund Balance</u> | | | |
| <u>Liabilities</u> | | | |
| Accounts payable | \$ 10,454 | \$ - | \$ 10,454 |
| Accrued payroll and related expenses | 1,065 | - | 1,065 |
| Customer deposits | 215 | - | 215 |
| Deferred property tax revenue | <u>16,954</u> | <u>-</u> | <u>16,954</u> |
| Total Liabilities | <u>28,688</u> | <u>-</u> | <u>28,688</u> |
| <u>Fund Balance</u> | | | |
| Nonspendable-Prepaid Insurance | 2,702 | - | 2,702 |
| Nonspendable-Perpetual care | - | 6,320 | 6,320 |
| Restricted-Municipal Aid and Cemetery | - | 117,952 | 117,952 |
| Unassigned | <u>717,976</u> | <u>-</u> | <u>717,976</u> |
| Total Fund Balance | <u>720,678</u> | <u>124,272</u> | <u>844,950</u> |
| <u>Total Liabilities and Fund Balance</u> | <u>\$ 749,366</u> | <u>\$ 124,272</u> | <u>\$ 873,638</u> |

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2018

Fund Balance - Total Governmental Funds \$ 844,950

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet:

| | | |
|-------------------------------|--------------------|---------|
| Governmental capital assets | \$ 1,944,252 | |
| Less accumulated depreciation | <u>(1,067,438)</u> | 876,814 |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet:

| | |
|--|-----------------|
| Net pension and other post employment benefit liabilities and related deferred outflows and inflows of resources | <u>(46,879)</u> |
|--|-----------------|

Net Position of Governmental Activities **\$ 1,674,885**

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>General</u> <u>Fund</u> | <u>Other</u> <u>Governmental</u> <u>Funds</u> | <u>Total</u> <u>Governmental</u> <u>Funds</u> |
|---|-------------------------------|---|---|
| <u>Revenues</u> | | | |
| Taxes | | | |
| Insurance premium taxes | \$ 133,102 | \$ - | \$ 133,102 |
| Property taxes | 75,966 | - | 75,966 |
| Occupational taxes | 30,838 | - | 30,838 |
| Franchise taxes | 32,211 | - | 32,211 |
| Other | 3,736 | - | 3,736 |
| Intergovernmental | 33,583 | - | 33,583 |
| Public safety | 28,964 | - | 28,964 |
| Operating grants | 775 | - | 775 |
| Miscellaneous | 97,376 | 6,600 | 103,976 |
| Interest | 233 | 63 | 296 |
| Total Revenues | <u>436,784</u> | <u>6,663</u> | <u>443,447</u> |
| <u>Expenditures</u> | | | |
| Current | | | |
| General government | 160,551 | - | 160,551 |
| Public streets | 26,501 | - | 26,501 |
| Public safety | 22,103 | - | 22,103 |
| Library | 7,680 | - | 7,680 |
| Cemetery | - | 118 | 118 |
| Debt service | 17,665 | - | 17,665 |
| Capital outlay | <u>133,751</u> | - | <u>133,751</u> |
| Total Expenditures | <u>368,251</u> | <u>118</u> | <u>368,369</u> |
| <u>Excess (Deficiency) of Revenues Over Expenditures</u> | <u>68,533</u> | <u>6,545</u> | <u>75,078</u> |
| <u>Other Financing Sources (Uses)</u> | | | |
| Transfers in | 57,806 | 1,000 | 58,806 |
| Transfers out | <u>(100)</u> | <u>(30,341)</u> | <u>(30,441)</u> |
| Total other financing sources (uses) | <u>57,706</u> | <u>(29,341)</u> | <u>28,365</u> |
| <u>Net Change in Fund Balance</u> | 126,239 | (22,796) | 103,443 |
| <u>Fund Balance - Beginning</u> | <u>594,439</u> | <u>147,068</u> | <u>741,507</u> |
| <u>Fund Balance - Ending</u> | <u>\$ 720,678</u> | <u>\$ 124,272</u> | <u>\$ 844,950</u> |

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balance - Total Governmental Funds \$ 103,443

Amounts reported for governmental activities in the statement of activities are different because:

The net pension and other post employment benefit liabilities and related deferred outflows and inflows of resources are an obligation of the City not payable from current year resources and not reported as an expenditure of the current year. In the Statement of Activities, these costs represent (expenses)/recovery in the current year. 3,794

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

| | | |
|---------------------------------|-----------------|--------|
| Expenditures for capital assets | \$ 133,751 | |
| Less current year depreciation | <u>(73,661)</u> | 60,090 |

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of loan costs when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 17,017

Changes in Net Position of Governmental Activities **\$ 184,344**

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual</u> Amounts | Variance with Final Budget Positive (Negative) |
|---|-------------------------|-------------------|--------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>Revenues</u> | | | | |
| Taxes | | | | |
| Insurance premium taxes | \$ - | \$ - | \$ 133,102 | \$ 133,102 |
| Property taxes | 354,200 | 354,200 | 75,966 | (278,234) |
| Occupational taxes | - | - | 30,838 | 30,838 |
| Franchise taxes | - | - | 32,211 | 32,211 |
| Other | - | - | 3,736 | 3,736 |
| Intergovernmental | - | - | 33,583 | 33,583 |
| Public safety | - | - | 28,964 | 28,964 |
| Operating grants | - | - | 775 | 775 |
| Miscellaneous | 214,200 | 214,200 | 97,376 | (116,824) |
| Interest | - | - | 233 | 233 |
| Total Revenues | <u>568,400</u> | <u>568,400</u> | <u>436,784</u> | <u>(131,616)</u> |
| <u>Expenditures</u> | | | | |
| Current | | | | |
| General government | 260,900 | 260,900 | 160,551 | 100,349 |
| Public safety | 44,100 | 44,100 | 22,103 | 21,997 |
| Public streets | 62,000 | 62,000 | 26,501 | 35,499 |
| Library | 12,700 | 12,700 | 7,680 | 5,020 |
| Debt service | - | - | 17,665 | (17,665) |
| Capital outlay | - | - | 133,751 | (133,751) |
| Total Expenditures | <u>379,700</u> | <u>379,700</u> | <u>368,251</u> | <u>11,449</u> |
| <u>Excess (Deficiency) of Revenues Over Expenditures</u> | 188,700 | 188,700 | 68,533 | (120,167) |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers out | - | - | (100) | (100) |
| Transfers in | - | - | 57,806 | 57,806 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>57,706</u> | <u>57,706</u> |
| <u>Net Change in Fund Balance</u> | <u>\$ 188,700</u> | <u>\$ 188,700</u> | 126,239 | <u>\$ (62,461)</u> |
| <u>Fund Balance - Beginning</u> | | | 594,439 | |
| <u>Fund Balance - Ending</u> | | | <u>\$ 720,678</u> | |

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

| | <u>Business-type Activities</u> | | |
|--|---------------------------------|---------------------|---------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| <u>ASSETS</u> | | | |
| <u>Current Assets</u> | | | |
| Cash equivalents | \$ 39,541 | \$ 128,335 | \$ 167,876 |
| Accounts receivable (net of allowance) | 26,917 | 117,950 | 144,867 |
| Due from other funds | 888 | - | 888 |
| Unbilled revenue | 12,323 | 14,106 | 26,429 |
| Inventory | 21,968 | - | 21,968 |
| Prepayments | 907 | 4,127 | 5,034 |
| Restricted assets: | | | |
| Cash equivalents | <u>90,165</u> | <u>286,744</u> | <u>376,909</u> |
| Total Current Assets | <u>192,709</u> | <u>551,262</u> | <u>743,971</u> |
| <u>Non-current Assets</u> | | | |
| Capital assets, net of depreciation | <u>2,391,592</u> | <u>4,121,553</u> | <u>6,513,145</u> |
| Total Assets | <u>2,584,301</u> | <u>4,672,815</u> | <u>7,257,116</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Related to pensions and other post employment benefits | <u>26,589</u> | <u>22,126</u> | <u>48,715</u> |
| <u>LIABILITIES</u> | | | |
| <u>Current Liabilities</u> | | | |
| Accounts payable | 15,018 | 35,753 | 50,771 |
| Accrued interest payable | 16,215 | 48,291 | 64,506 |
| Accrued payroll and payroll taxes | 1,930 | 1,641 | 3,571 |
| Due to other funds | - | 289,735 | 289,735 |
| Customer deposits | 29,699 | - | 29,699 |
| Long-term debt due in one year | <u>31,500</u> | <u>151,155</u> | <u>182,655</u> |
| Total Current Liabilities | <u>94,362</u> | <u>526,575</u> | <u>620,937</u> |
| <u>Non-current Liabilities</u> | | | |
| Long-term debt due after one year (net of bond discount) | 1,475,000 | 2,672,010 | 4,147,010 |
| Net pension and other post employment benefits liabilities | <u>82,539</u> | <u>56,666</u> | <u>139,205</u> |
| Total Non-current Liabilities | <u>1,557,539</u> | <u>2,728,676</u> | <u>4,286,215</u> |
| Total Liabilities | <u>1,651,901</u> | <u>3,255,251</u> | <u>4,907,152</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Related to pensions and other post employment benefits | <u>33,008</u> | <u>25,670</u> | <u>58,678</u> |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 885,092 | 1,298,388 | 2,183,480 |
| Restricted for debt retirement | 42,450 | 87,298 | 129,748 |
| Unrestricted | <u>(1,561)</u> | <u>28,335</u> | <u>26,774</u> |
| Total Net Position | <u>\$ 925,981</u> | <u>\$ 1,414,021</u> | <u>\$ 2,340,002</u> |

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Business-type Activities</u> | | |
|--|---------------------------------|---------------------|---------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| <u>Operating Revenues</u> | | | |
| Charges for service | \$ 286,220 | \$ 343,041 | \$ 629,261 |
| Late fees | 11,162 | 205,287 | 216,449 |
| Operating grants | - | 19,752 | 19,752 |
| Miscellaneous | 1,173 | - | 1,173 |
| Total Operating Revenues | <u>298,555</u> | <u>568,080</u> | <u>866,635</u> |
| <u>Operating Expenses</u> | | | |
| Depreciation | 29,540 | 159,204 | 188,744 |
| Salaries and wages | 61,245 | 50,005 | 111,250 |
| Contract service | 44,883 | 65,646 | 110,529 |
| Utilities | 43,092 | 51,550 | 94,642 |
| Repairs and maintenance | 16,946 | 58,753 | 75,699 |
| Insurance | 16,525 | 27,637 | 44,162 |
| Chemicals | 4,202 | 18,371 | 22,573 |
| Health benefits | 10,233 | 7,426 | 17,659 |
| Testing | 2,693 | 14,799 | 17,492 |
| Miscellaneous | 6,794 | 6,963 | 13,757 |
| Office supplies | 5,068 | 3,220 | 8,288 |
| Payroll taxes | 4,262 | 3,472 | 7,734 |
| Professional | 3,451 | 3,349 | 6,800 |
| Fuel and oil | 3,234 | 3,185 | 6,419 |
| Postage | 2,281 | 2,234 | 4,515 |
| Telephone | 2,503 | 1,773 | 4,276 |
| Bank charges | 1,455 | 705 | 2,160 |
| Vehicle maintenance | 987 | 1,002 | 1,989 |
| Dues and subscriptions | 501 | 501 | 1,002 |
| Advertising | 305 | 503 | 808 |
| Uniforms | 157 | 157 | 314 |
| Supplies | 60 | - | 60 |
| Retirement and other post employment benefits | (4) | (1,600) | (1,604) |
| Total Operating Expenses | <u>260,413</u> | <u>478,855</u> | <u>739,268</u> |
| <u>Income (Loss) from Operations</u> | <u>38,142</u> | <u>89,225</u> | <u>127,367</u> |
| <u>Nonoperating Revenues (Expenses)</u> | | | |
| Investment income | 64 | 81 | 145 |
| Interest expense and fees | (32,831) | (123,675) | (156,506) |
| Bad debts | (1,281) | (530) | (1,811) |
| Total Nonoperating Revenues (Expenses) | <u>(34,048)</u> | <u>(124,124)</u> | <u>(158,172)</u> |
| <u>Income (Loss) Before Contributions and Transfers</u> | 4,094 | (34,899) | (30,805) |
| Capital contributions | 52,189 | 28,365 | 80,554 |
| Transfers in | 16,099 | 129 | 16,228 |
| Transfers out | (129) | (44,464) | (44,593) |
| <u>Change in Net Position</u> | 72,253 | (50,869) | 21,384 |
| <u>Net Position - Beginning (as restated)</u> | <u>853,728</u> | <u>1,464,890</u> | <u>2,318,618</u> |
| <u>Net Position - Ending</u> | <u>\$ 925,981</u> | <u>\$ 1,414,021</u> | <u>\$ 2,340,002</u> |

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Business-type Activities</u> | | |
|---|---------------------------------|-------------------|-------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| <u>Cash Flows From Operating Activities</u> | | | |
| Cash received from customers | \$ 296,076 | \$ 507,573 | \$ 803,649 |
| Cash payments to suppliers for goods and services | (178,519) | (253,685) | (432,204) |
| Cash payments to employees for services | (62,919) | (51,271) | (114,190) |
| Net Cash Provided (Used) By Operating Activities | <u>54,638</u> | <u>202,617</u> | <u>257,255</u> |
| <u>Cash Flows From Noncapital Financing Activities</u> | | | |
| Net (increase) decrease in amounts due from other funds | (888) | - | (888) |
| Net decrease (increase) in amounts due to other funds | - | 259,735 | 259,735 |
| Transfers in | 16,099 | 129 | 16,228 |
| Transfers out | (129) | (44,464) | (44,593) |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>15,082</u> | <u>215,400</u> | <u>230,482</u> |
| <u>Cash Flows from Capital and Related Financing Activities</u> | | | |
| Proceeds from issuance of debt | - | 140,000 | 140,000 |
| Principal paid on debt | (31,000) | (133,667) | (164,667) |
| Contributed capital | 52,189 | 28,365 | (80,554) |
| Acquisition of property, plant and equipment | (53,782) | (220,212) | (273,994) |
| Interest paid on debt | (33,250) | (125,967) | (159,217) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(65,843)</u> | <u>(311,481)</u> | <u>(377,324)</u> |
| <u>Cash Flows from Investing Activities</u> | | | |
| Income received on investments | 64 | 81 | 145 |
| Net Cash Provided (Used) By Investing Activities | <u>64</u> | <u>81</u> | <u>145</u> |
| <u>Net Increase (Decrease) in Cash Equivalents</u> | 3,941 | 106,617 | 110,558 |
| <u>Cash Equivalents - Beginning of Year</u> | <u>125,765</u> | <u>308,462</u> | <u>434,227</u> |
| <u>Cash Equivalents - End of Year</u> | <u>\$ 129,706</u> | <u>\$ 415,079</u> | <u>\$ 544,785</u> |
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)</u> | | | |
| <u>By Operating Activities</u> | | | |
| Operating income (loss) | \$ 38,142 | \$ 89,225 | \$ 127,367 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 29,540 | 159,204 | 188,744 |
| Change in assets and liabilities: | | | |
| Decrease (increase) in receivables | (2,751) | (60,507) | (63,258) |
| Decrease (increase) in inventory | (10,025) | - | (10,025) |
| Decrease (increase) in prepayments | (70) | (1,994) | (2,064) |
| Decrease (increase) in deferred outflows | (10,245) | (9,673) | (19,918) |
| Increase (decrease) in accounts payable | 8,593 | 25,300 | 33,893 |
| Increase (decrease) in accrued payroll and other expenses | (1,674) | (1,266) | (2,940) |
| Increase (decrease) in customer deposits | 272 | - | 272 |
| Increase (decrease) in pension and other post employment liabilities | (15,085) | (12,295) | (27,380) |
| Increase (decrease) in deferred inflows | 17,941 | 14,623 | 32,564 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 54,638</u> | <u>\$ 202,617</u> | <u>\$ 257,255</u> |
| <u>Reconciliation of Total Cash</u> | | | |
| Current Assets - Cash | \$ 39,541 | \$ 128,335 | \$ 167,876 |
| Restricted Assets - Cash | 90,165 | 286,744 | 376,909 |
| Total Cash | <u>\$ 129,706</u> | <u>\$ 415,079</u> | <u>\$ 544,785</u> |

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Nortonville, Kentucky operates under a Mayor/Council form of government and provides the following services as authorized: public safety (fire), highway and streets, water and sewer utilities, cultural and recreation, public improvements, cemetery and general and administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The City follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the City are described below:

A. The Financial Reporting Entity

The City of Nortonville, Kentucky is a municipal corporation governed by an elected six member council and mayor. The City has adhered to the standards set forth in GASB Statement No. 14 as amended by GASB Statement No. 61 of the Governmental Accounting Standards Board in reporting the primary government (including blended component units), discretely presented component units, the reporting entity and related relationships with the City.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in the other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

PROPRIETARY FUNDS

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

Water Fund

The Water Fund is used to account for the provision of water services to the residents of the City and some county residents. Activities of the fund include administration, water treatment, and distribution infrastructure additions and maintenance. All fund costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the financial integrity of the fund.

Sewer Fund

The Sewer Fund is used to account for the provision of sewer services to the residents of the City. Activities of the fund include administration, wastewater collection, infrastructure additions and maintenance, and wastewater treatment activities. The fund accounts for the accumulation of resources for, and payment of, long-term debt principal and interest for sewer system debt. All fund costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the financial integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the costs of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means the

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (usually 45 days). The City considers property taxes as available if they are collected within 60 days after year end. Franchise and insurance premium taxes are considered available and are, therefore, recognized as revenues even though a portion of taxes may be collected in the subsequent year. Intergovernmental revenues received as reimbursements for specific purposes or projects are recognized based upon expenditures recorded. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include: (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the City must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

D. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, and proprietary funds. Any revisions that alter the total expenditures of any fund must be approved by a majority vote of the City Council.

Budgets and budgeting procedures require that prior to June 1 of each year, the Mayor submits a proposed budget to the Council for the year commencing the following July 1. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. The City Council holds public hearings to obtain taxpayer comments. Prior to June 30 of each year, the City Council approves the budget by majority vote.

As required by Kentucky Revised Statutes (K.R.S.) 91A.030 (1), formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Enterprise Funds. Total expenditures for a fund legally may not exceed the total appropriations as required by K.R.S. 91A.030 (13). All appropriations lapse at year-end.

Budget amendments, as allowed by ordinance, require majority approval by the City Council. The Mayor is authorized to transfer budgeted amounts between accounts within any fund.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

However, any revisions that alter the total expenditures of any fund must be approved by a majority vote of the City Council.

E. Cash and Investments

Money market instruments and certificates of deposits are stated at cost or amortized cost, which approximates fair value. All other investment securities are stated at fair value.

City ordinances authorize the City to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, and demand deposits. All investments must be purchased through local brokers/dealers or deposited with local financial institutions. In accordance with GASB Statement 31, quoted market price was used to determine the fair value of investments.

For the purpose of the statement of cash flows, the City considers all cash in banks with stated maturities of three months or less or available for withdrawal by City management to be cash and cash equivalents.

F. Short-Term Interfund Receivables/Payables

During the course of operations numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

G. Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are recorded in the Governmental and Business-type funds net of appropriate allowance for uncollectible accounts. An allowance for uncollectible accounts has been provided based on prior years' loss experiences as percentage of revenues billed. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the June 30, 2018 accounts receivable.

H. Inventory

Inventory consists of materials and supplies. Inventory is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018 are recorded as prepaid items. Prepaid items recorded in the governmental funds are reflected as nonspendable fund balance.

J. Restricted Assets

The restricted funds have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

K. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category.

Deferred outflows related to pensions and other post employment benefits (opec) are reported in the government-wide and proprietary statement of net position. A deferred outflow from pensions and other post employment benefits results from City contributions made subsequent to the measurement date and various changes resulting from actuarial pension/opec measurements. The contribution amount is deferred and will be recognized as a reduction of net pension and other post employment benefits liabilities in the year ending June 30, 2019. The various changes resulting from actuarial pension/opec measurements are deferred and amortized in future periods as a component of pension/opec expense.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category.

Deferred inflows related to property taxes are reported in the government-wide statement of net position and governmental balance sheet. A deferred inflow from property taxes results from property taxes receivable that are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

Deferred inflows related to pensions and other post employment benefits are reported in the government-wide statement and proprietary statement of net position. A deferred inflow from pensions and other post employment benefits results from net differences between expected and actual earnings on pension and other post employment benefit plan investments and various changes resulting from actuarial pension/opec measurements. These amounts are deferred and will be recognized as a reduction of pension and other post employment benefit expense over future periods.

L. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (excluding those acquired prior to June 30, 2003), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has been capitalized during the construction period on property, plant and equipment.

Assets capitalized, including infrastructure assets, have an original cost of \$500 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

property using the straight-line method. The estimated useful lives are as follows:

| <u>Description</u> | <u>Estimated Life</u> |
|------------------------------------|-----------------------|
| Buildings and infrastructure | 10-40 years |
| Utility plant, mains and lines | 40-50 years |
| Vehicles | 5-10 years |
| Furniture, fixtures, and equipment | 5-10 years |

M. Pensions and Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County Employees Retirement System(CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. for this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) OPEB Plan and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

N. Compensated Absences

Employees of the City earn two weeks of paid leave per year after one year of service based on a calendar year. Unused vacation and sick days are not allowed to be carried over. Therefore, there are no compensated absences to be accrued in the financial statements.

O. Unearned Revenue

In the governmental funds, certain revenue transactions have been reported as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a deferred inflow of resources until such time as the revenue becomes available. In the proprietary funds (and for the governmental activities in the government-wide statements), unearned revenue is reported regardless of its availability.

P. Bond Premiums, Discounts, and Issuance Costs

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective-interest method and are reported as deferred amounts from refunding debt. Issuance costs are reported as expenses.

Q. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and the proprietary fund financial statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position.

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources are reported as obligations of the

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

fund. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

R. Revenues, Expenditures and Expenses

Substantially all governmental fund revenues (including occupational and insurance premium taxes, franchise fees, and licenses) are accrued. Property taxes are generally billed and collected within the same period in which the taxes are levied. In addition, revenue from Federal and State reimbursement type grants for which eligibility requirements have been met have been accrued and recognized as revenues of the period. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures are recognized when the related fund liability is incurred except for the following, which are permitted by generally accepted accounting principles. General obligation long-term debt principal and interest, compensated absences, pension and other benefits, and other long-term liabilities are reported only when due.

Operating revenues for proprietary funds are those that result from providing services and producing and delivering goods and/or services. The principal operating revenue of the proprietary funds is receipts from customers. Operating expenses for these operations include all costs related to providing the service. These costs include salaries, contractual services, supplies, maintenance, depreciation, and administrative expenses. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

S. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

T. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

U. Net Position

In the government-wide statements, equity is classified as net position and displayed in three components.

- Net investment in capital assets - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

acquisition, construction, or improvement of those assets net of unspent financing proceeds.

- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

In governmental fund financial statements, equity is classified as fund balance and is displayed in up to five components based primarily on the extent to which the City is bound to observe constraints imposed on the use of fund resources. These components are as follows:

- **Nonspendable fund balance** - amounts that are not in spendable form (such as inventory or prepaid expenses) or are required to be maintained intact.
- **Restricted fund balance** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance** - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** - amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City delegates the authority.
- **Unassigned fund balance** - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

V. **Adoption of New Accounting Pronouncements**

Governmental Accounting Standards Board Statement No. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. This Statement replaces Statements No. 45 and 57. The cumulative effect of this change is reported in Note 13.

Governmental Accounting Standards Board Statement No. 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued in March 2016. The provisions of this Statement are effective for periods beginning after December 15, 2016. This statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split interest agreement. The City does not have any agreements meeting the requirements of this standard.

GASB Statement No. 85

GASB Statement No. 85, *Omnibus 2017*, was issued in March, 2017. The provisions of this Statement are effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86

GASB Statement No. 86, *Certain Debt Extinguishments issues*, was issued in May, 2017. The provisions of this Statement are effective for periods beginning after June 15, 2017. The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. The City does not have any transactions meeting the requirements of this standard.

Recent Accounting Pronouncements

As of June 30, 2018, the GASB has issued the following statements not yet required to be adopted by the City.

GASB Statement No. 83

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued in November 2016. The provisions of this Statement are effective for periods beginning after June 15, 2018. This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (ARO); including obligations that may not have been previously reported. The Statement also will enhance the decision usefulness of the information provided to the financial statement users by requiring disclosures related to those AROs. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when

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the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets. Other obligations to retire capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 84

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017. The provisions of this Statement are effective for periods beginning after December 15, 2018. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 87

GASB Statement No. 87, *Leases*, was issued in June, 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 88

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April, 2018. The provisions of this Statement are effective for periods beginning after June 15, 2018. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 89

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before The End of a Construction Period*, was issued in June, 2018. The provisions of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement will

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improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 90

GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statement Nos. 14 and 61*, was issued in August, 2018. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The requirements of this Statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The City's management has not yet determined the effect this statement will have on the financial statements.

W. Subsequent Events

The City has evaluated subsequent events through October 28, 2020, the date which the financial statements were available to be issued.

2. LEGAL COMPLIANCE - BUDGETS

The City did not adopt a new budget for the fiscal year ending June 30, 2018. Per K.R.S. 91A.030, the prior year budget remains in effect. Therefore, the City operated under the last adopted budget Ordinance 2016-01 which was adopted on March 17, 2016.

Excess of Expenditures Over Appropriations in Individual Funds

The following funds had an excess of actual expenditures and other financing uses over budget for the year ended June 30, 2018:

| | | |
|------------|----|---------|
| Water Fund | \$ | 34,054 |
| Sewer Fund | \$ | 286,524 |

The expenditures were due mainly to budgeting practices. Fund equity and other financial sources were sufficient to offset the over expenditures. Annual budgets are adopted for the General Fund, and all Proprietary Funds.

Operating Deficit

The following funds had operations that resulted in a current year deficit of revenue under expenditures and other financing uses resulting in a corresponding reduction of fund balance. These deficits were funded by available resources at the beginning of the year.

| | | |
|--------------------|----|--------|
| Sewer Fund | \$ | 50,869 |
| Municipal Aid Fund | \$ | 29,286 |

3. DEPOSITS AND INVESTMENTS

Statement of Net Position Cash Presentation

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

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| | Deposits | Primary Government Total |
|--------------------|--------------|--------------------------------|
| Cash equivalents | \$ 655,611 | \$ 655,611 |
| Restricted assets: | | |
| Cash equivalents | 376,909 | 376,909 |
| Total | \$ 1,032,520 | \$ 1,032,520 |

A. Deposits

At year-end, the carrying amount of the City's cash equivalents was \$1,032,520 including cash on hand of \$750. The bank balance was \$1,044,177, of which \$483,496 was covered by federal depository insurance and \$560,681 was covered by collateral held by the pledging financial institution's agent or trust department in the City's name.

B. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City does not place any limits on the amount that may be invested with one issuer.

Identification

At June 30, 2018 the City had no investments.

4. PROPERTY TAXES

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by Hopkins County as its base to apply the property tax rate. According to Kentucky Revised Statutes, the assessment date for the City must conform to the assessment date of Hopkins County, and the annual increase in the property tax levy cannot exceed 4%. For the year ending June 30, 2018, taxes were levied on October 1, 2017 and payable on December 31, 2017. The tax rate was 23.9 cents per \$100 of assessed valuation of real property; 22.9 cents per \$100 of assessed valuation of vehicles and watercraft, and 35.84 cents per \$100 of assessed valuation of tangible property. Enforceable liens on delinquent property tax bills attach to the property when filed by the City by August 31 of each year. City property tax revenues are recognized when levied to the extent that they result in current receivables in accordance with GASB Statement 1, "Revenue Recognition - Property Taxes."

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5. CAPITAL ASSETS

Governmental Activities

A summary of capital assets for governmental activities at June 30, 2018 follows:

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 45,000 | \$ - | \$ - | \$ 45,000 |
| Construction in progress | - | 6,134 | - | 6,134 |
| Total capital assets, not being depreciated | <u>45,000</u> | <u>6,134</u> | <u>-</u> | <u>51,134</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 98,763 | - | - | 98,763 |
| Improvements | 615,996 | 8,727 | - | 624,723 |
| Machinery and equipment | 309,883 | 4,491 | - | 314,374 |
| Vehicles | 197,300 | 1,500 | - | 198,800 |
| Police and fire equipment | 501,002 | 7,676 | - | 508,678 |
| Infrastructure | 42,557 | 105,223 | - | 147,780 |
| Total capital assets, being depreciated | <u>1,765,501</u> | <u>127,617</u> | <u>-</u> | <u>1,893,118</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (51,710) | (2,484) | - | (54,194) |
| Improvements | (185,927) | (18,505) | - | (204,432) |
| Machinery and equipment | (270,739) | (7,039) | - | (277,778) |
| Vehicles | (150,371) | (9,588) | - | (159,959) |
| Police and fire equipment | (317,833) | (32,491) | - | (350,324) |
| Infrastructure | (17,197) | (3,554) | - | (20,751) |
| Total accumulated depreciation | <u>(993,777)</u> | <u>(73,661)</u> | <u>-</u> | <u>1,067,438</u> |
| Total capital assets, being depreciated, net | <u>771,724</u> | <u>53,956</u> | <u>-</u> | <u>825,680</u> |
| Governmental activities capital assets, net | <u>\$ 816,724</u> | <u>\$ 60,090</u> | <u>\$ -</u> | <u>\$ 876,814</u> |

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Business-type Activities

A summary of capital assets for business-type activities at June 30, 2018 follows:

| <u>Business-type Activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|----------------------|---------------------------|
| Construction in progress | \$ 1,968,361 | \$ - | \$(1,968,361) | \$ - |
| Total capital assets, not being depreciated | <u>1,968,361</u> | <u>-</u> | <u>(1,968,361)</u> | <u>-</u> |
| Capital assets, being depreciated: | | | | |
| Water plant | \$ 916,106 | \$ 2,016,748 | \$ - | \$ 2,932,854 |
| Buildings, tanks, etc. | 160,563 | 585 | - | 161,148 |
| Vehicles | 21,210 | - | - | 21,210 |
| Water equipment | 58,571 | 4,811 | - | 63,382 |
| Sewer plant | 3,160,401 | 178,241 | - | 3,338,642 |
| Sewer equipment | 292,174 | 41,973 | - | 334,147 |
| Regional sewer project | <u>5,200,367</u> | <u>-</u> | <u>-</u> | <u>5,200,367</u> |
| Total capital assets, being depreciated | <u>9,809,392</u> | <u>2,242,358</u> | <u>-</u> | <u>12,051,750</u> |
| Less accumulated depreciation for: | | | | |
| Water plant | (552,541) | (23,652) | - | (576,193) |
| Buildings, tanks, etc. | (147,029) | (876) | - | (147,905) |
| Vehicles | (21,210) | - | - | (21,210) |
| Water equipment | (36,682) | (5,013) | - | (41,695) |
| Sewer plant | (3,016,474) | (13,255) | - | (3,029,729) |
| Sewer equipment | (158,960) | (15,902) | - | (174,862) |
| Regional sewer project | <u>(1,416,965)</u> | <u>(130,046)</u> | <u>-</u> | <u>(1,547,011)</u> |
| Total accumulated depreciation | <u>(5,349,861)</u> | <u>(188,744)</u> | <u>-</u> | <u>(5,538,605)</u> |
| Total capital assets, being depreciated, net | <u>4,459,531</u> | <u>2,053,614</u> | <u>-</u> | <u>6,513,145</u> |
| Business-type activities capital assets, net | <u>\$ 6,427,892</u> | <u>\$ 2,053,614</u> | <u>\$(1,968,361)</u> | <u>\$ 6,513,145</u> |

Depreciation expense was not allocated to governmental functions. It appears on the Statement of Activities as depreciation on a separate line.

6. **RESTRICTED NET POSITION**

Certain assets relating to long term debt, which are restricted as described in Note 8 are as follows at June 30, 2018:

Bond and Interest Redemption Accounts:

| <u>Debt Requirement Restricted Assets</u> | <u>Water</u> | <u>Sewer</u> |
|---|------------------|-------------------|
| Bond Sinking Reserve | \$ 90,165 | \$ 159,960 |
| Ky Bond Debt Service Fund | - | 126,784 |
| Total | <u>\$ 90,165</u> | <u>\$ 286,744</u> |
| <u>Current portion of Debt Requirements</u> | | |
| Revenue bonds and debt payable | \$ 31,500 | \$ 151,155 |
| Accrued interest payable | <u>16,215</u> | <u>48,291</u> |
| Total | <u>47,715</u> | <u>199,446</u> |
| <u>Net Position Restricted for Debt Service</u> | <u>\$ 42,450</u> | <u>\$ 87,298</u> |

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7. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2018, the City contracted with commercial insurance carriers for coverage of all the risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 years. There were no significant reductions in coverages during the past 3 years.

8. GOVERNMENT WIDE ACTIVITIES DEBT

Capital Lease Obligation

On May 9, 2014, the City entered into a lease agreement with US Bank Equipment Finance for a fire truck. The lease agreement calls for annual lease payments of \$8,832 beginning May 9, 2015 and concluding on May 9, 2019. At the conclusion of the lease, legal ownership of the fire truck vests in the City. The lease qualifies as a capital financing lease with the cost of the asset and the net present value of the capital lease obligation reflected in these financial statements. The historical cost and accumulated depreciation for the fire truck acquired was \$50,000 and \$21,250, respectively as of June, 30, 2018. Amounts representing interest paid during the year ending June 30, 2018 totaled \$648. The lease was paid in full during the year ending June 30, 2018.

1980 Revenue Bond Payable

On November 6, 1981, the City authorized and provided for issuance and sale of \$1,058,000 principal amount of City of Nortonville, Kentucky Sewer Revenue Bonds, Series 1980. The purpose of the issuance was for financing the cost of the construction of a project consisting of the acquisition and construction of a new sewer system for the City. The bonds bear interest at 5% per annum. Annual principal payments are due on January 1 and semi-annual interest payments on January 1 and July 1. Amounts representing interest paid totaled \$8,600.

1995 Revenue Bond Payable

On February 29, 1996, the City authorized and provided for the issuance and sale of \$427,000 principal amount of City of Nortonville, Kentucky Waterworks and Sewer Revenue Bonds, Series 1995. The purpose of the issuance was for financing the cost of the construction of extensions, additions, and improvements to the existing combined and consolidated waterworks and sewer system. The bonds bear interest at 4.5% per annum. Annual principal payments are due on January 1 and semi-annual interest payments on January 1 and July 1. Amounts representing interest paid totaled \$12,937.

2013 Revenue Bond Payable

On July 30, 2013, the City authorized and provided for the issuance and sale of \$2,990,000 principal amount of City of Nortonville, Kentucky Sewer Revenue Bonds, Series 2013. The purpose of the issuance was for refinancing the Kentucky Infrastructure Authority Note Payable issued for prior sewer system improvements. The bonds bear interest at 2.0% - 4.625% per annum. Annual principal payments are due on February 1 and semi-annual interest payments on February 1 and August 1. Amounts representing interest paid totaled \$110,138.

2016 Revenue Bond Payable

On November 17, 2015, the City authorized and provided for the issuance and sale of \$1,250,000 principal amount of City of Nortonville, Kentucky Water System Revenue Bonds, Series 2016. The purpose of the issuance was for financing the cost of the construction of extensions, additions and improvements to the existing combined and consolidated waterworks and sewer system. The bonds bear interest at a rate not to exceed 2.50% per annum. Annual principal payments are due on

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January 1 and semi-annual interest payments on January 1 and July 1. Amounts representing interest paid totaled \$20,313.

Independence Bank of Kentucky

In March 2018, the City obligated itself for a loan in the amount of \$140,000 with Independence Bank of Kentucky to finance repairs to the sewer system. The note bears interest at 3.45% and calls for 59 monthly principal and interest payments of \$1,381 and a balloon payment of \$77,398. Interest paid during the year ended June 30, 2018 was \$1,599. Maturities of the loan obligation as of June 30, 2018 are:

| Fiscal Year | Principal | Interest | Total |
|----------------|-------------------|------------------|-------------------|
| 2019 | \$ 12,072 | \$ 4,505 | \$ 16,577 |
| 2020 | 12,495 | 4,082 | 16,577 |
| 2021 | 12,933 | 3,644 | 16,577 |
| 2022 | 13,387 | 3,190 | 16,577 |
| 2023 | 85,185 | 1,862 | 87,047 |
| Total | <u>\$ 136,072</u> | <u>\$ 17,283</u> | <u>\$ 153,355</u> |

The following is a summary of the changes in long-term debt for the year ended June 30, 2018:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due in One Year |
|---|-------------------------|-----------------------|-----------------------|-------------------------|-----------------------|
| <u>Governmental Activities:</u> | | | | | |
| Capital Lease Obligation | \$ 17,017 | \$ - | \$ 17,017 | \$ - | \$ - |
| Total Governmental Activities | <u>17,017</u> | <u>-</u> | <u>17,017</u> | <u>-</u> | <u>-</u> |
| <u>Business-type Activities:</u> | | | | | |
| 1980 Revenue Bonds Payable | 172,000 | - | 55,000 | 117,000 | 57,000 |
| 1995 Revenue Bonds Payable | 287,500 | - | 11,000 | 276,500 | 11,000 |
| 2013 Revenue Bonds Payable | 2,698,750 | - | 77,083 | 2,621,667 | 82,083 |
| 2016 Revenue Bonds Payable | 1,250,000 | - | 20,000 | 1,230,000 | 20,500 |
| Less Unamortized Bond Discount | (53,918) | - | 2,344 | (51,574) | - |
| Independence Bank of Kentucky | - | 140,000 | 3,928 | 136,072 | 12,072 |
| Total Business-type Activities | <u>4,354,332</u> | <u>140,000</u> | <u>169,355</u> | <u>4,329,665</u> | <u>182,655</u> |
| Total Primary Government | <u>\$ 4,371,349</u> | <u>\$ 140,000</u> | <u>\$ 186,372</u> | <u>\$ 4,329,665</u> | <u>\$ 182,655</u> |

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Annual principal and interest requirements of the revenue bonds payable as of June 30, 2018 are:

| Fiscal Year | Principal | Interest | Fees | Total |
|----------------|---------------------|---------------------|------------------|---------------------|
| 2019 | \$ 170,583 | \$ 146,430 | \$ 7,004 | \$ 324,017 |
| 2020 | 178,000 | 140,298 | 6,798 | 325,096 |
| 2021 | 120,585 | 133,874 | 6,586 | 261,045 |
| 2022 | 125,000 | 130,381 | 6,369 | 261,750 |
| 2023 | 128,083 | 126,653 | 6,144 | 260,880 |
| 2024-28 | 717,333 | 561,668 | 27,069 | 1,306,070 |
| 2029-33 | 876,000 | 417,552 | 20,031 | 1,313,583 |
| 2034-38 | 1,010,083 | 232,922 | 11,197 | 1,254,202 |
| 2039-43 | 392,000 | 67,398 | 1,410 | 460,808 |
| 2044-48 | 200,000 | 39,731 | - | 239,731 |
| 2049-53 | 226,500 | 23,067 | - | 249,567 |
| 2054-57 | 101,000 | 4,070 | - | 105,070 |
| Total | <u>\$ 4,245,167</u> | <u>\$ 2,024,044</u> | <u>\$ 92,608</u> | <u>\$ 6,361,819</u> |

9. LITIGATION, CONTINGENCIES AND COMMITMENTS

Litigation

The City initiated *City of Nortonville vs City of White Plains* in early 2017 relating to the City of White Plains' failure to pay the new wholesale sanitary sewer rate enacted by the Nortonville City Council on June 30, 2016. The City participated in a binding arbitration hearing on November 7 and November 8, 2019, and reached a tentative agreement to resolve the issue. The settlement agreement includes the City of White Plains paying a compromised sum of \$55,000 to the City of Nortonville for outstanding wholesale sanitary sewer treatment invoices. The parties agree to enter into a new contract for wholesale sanitary sewer treatment services and resolve the pending litigation. The proposed date to enter into the new contract is December 1, 2019.

The City is unaware of any other pending or threatened litigation, or claims.

Contingencies

The City participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2018, may not yet have been conducted.

Commitments

At June 30, 2018 the City did not have any committed funds.

10. MAJOR CUSTOMER

Sewer Treatment Services

In November, 1994, the City entered into a long-term contract to provide sewer treatment services to the City of Mortons Gap. The term of the agreement is for 45 years, with amendments possible upon the consent of both parties. The City bills the City of Mortons Gap monthly for the sewer treatment. Total sales to the City of Mortons Gap for the year ended June 30, 2018, were \$109,974. This amount constitutes 32% of the total revenue.

In December, 1996, the City entered into a long-term contract to provide sewer treatment services to the City of White Plains. The term of the agreement is for 45 years, with amendments possible upon

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the consent of both parties. The City bills the City of White Plains monthly for the sewer treatment. Total sales to the City of White Plains for the year ended June 30, 2018, were \$69,706. This amount constitutes 20% of the total revenue.

11. EMPLOYEE'S RETIREMENT PLAN

County Employees' Retirement System

General Information about the Pension Plan

Plan Description

The City of Nortonville, Kentucky is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems Board of Trustees (KRS Board) established pursuant to Kentucky Revised Statutes (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the KRS Board. All City employees participating in the CERS are classified as having either a hazardous or nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at <https://kyret.ky.gov>.

Membership in the CERS Nonhazardous and Hazardous pension plan consisted of the following at June 30, 2016, the date of the last actuarial valuation:

| <u>Membership Status</u> | <u>Non-hazardous</u> |
|--|----------------------|
| Inactive plan members currently receiving benefits | 56,339 |
| Inactive plan members entitled to but not yet receiving benefits | 82,292 |
| Active plan members | 80,664 |
| Total plan members | <u>219,295</u> |

Benefits Provided

CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employers are vested in the plan after five years' service. For retirement purposes, non-hazardous and hazardous employees are grouped into three tiers, based on hire date.

Non-hazardous members:

| | | |
|--------|----------------------|--|
| Tier 1 | Participation Date | Prior to September 1, 2008 |
| | Unreduced retirement | 27 years of service or 65 years old |
| | Reduced retirement | Minimum 5 years of service and 55 years old Minimum 25 years of service and any age |
| Tier 2 | Participation Date | September 1, 2008 and December 31, 2013 |
| | Unreduced retirement | Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87 |
| | Reduced retirement | Minimum 10 years of service and 60 years old |
| Tier 3 | Participation Date | After December 31, 2013 |
| | Unreduced retirement | Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87 |
| | Reduced retirement | Not available |

If a member's employment is terminated before the member is eligible for any other benefits under CERS, the member shall receive a refund of his/her member contributions with credited interest at 3 percent compounded annually through June 30, 1981, 6 percent thereafter through June 30, 1986, and 4 percent thereafter.

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Contributions

Covered employees who began participation before September 1, 2008 are required by state statute to contribute 5 percent of their salary to CERS. Covered employees who began participation on or after September 1, 2008 are required by state statute to contribute 6 percent of their salary to CERS. The additional 1 percent is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund.

Covered employees who began participation on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Employee contribution rates are 5 percent for those classified as nonhazardous and 1 percent to the health insurance fund which is not credited to the employee's account and is not refundable. The employer contribution rate is set annually by the KRS Board based on an actuarial valuation. The employer contributes a set percentage of the employee's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the employee's account equal to 4 percent for those classified as nonhazardous. The employer pay credit represents a portion of the total employer contribution.

Employers are required by state statute (KRS 78.545) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. For the year ended June 30, 2018, the employer contribution rate was 19.18% of members' nonhazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City's employer CERS contributions for the year ended June 30, 2018 were \$18,556 (\$14,009 for pension and \$4,547 for opeb) for nonhazardous classified employees which were 100% funded.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the City reported a net pension liability of \$135,211 for its proportionate share of the CERS net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that June 30, 2017, rolled forward from the valuation date to June 30, 2017 using generally accepted actuarial principles. The City's proportion of the net pension liability was determined using the City's actual contributions for the year ended June 30, 2017. This method is expected to be reflective of the City's long-term contribution effort. For the year ended June 30, 2017, the City's proportion was 0.002310 percent for nonhazardous classified employees.

For the year ended June 30, 2018, the City recognized pension expense(recovery) of \$(1,053). At June, 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Total |
|---|--------------------------------------|-------------------------------------|--------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ 10,709 | \$ 9,036 | \$ 19,745 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 240 | 64,792 | 65,032 |
| Change of assumptions | 24,950 | - | 24,950 |
| Difference between expected and actual experience | 168 | 3,431 | (3,263) |
| Contributions subsequent to the measurement date | 14,009 | - | 14,009 |
| Total | <u>\$ 50,076</u> | <u>\$ 77,259</u> | <u>\$ (27,183)</u> |

Deferred Outflows of Resources

The \$14,009 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ending | Amortization/(Accretion) Deferred Outflows (Inflows) |
|---------------|--|
| June 30, 2019 | \$ (21,768) |
| June 30, 2020 | (13,423) |
| June 30, 2021 | (4,265) |
| June 30, 2022 | (1,736) |
| Total | <u>\$ (41,192)</u> |

Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems. However, subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017.

| | |
|---------------------|------------------------------|
| Valuation Date | June 30, 2016 |
| Experience study | July 1, 2008 - June 30, 2013 |
| Actual cost method | Entry age normal |
| Amortization method | Level percentage of pay |
| Amortization period | 28 year, closed |

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

| | |
|---------------------------|--|
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets recognized |
| Inflation | 2.30% |
| Salary increases | 3.05%, average |
| Investment rate or return | 6.25%, net of pension plan investment expense including inflation |

The mortality table used for active members is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 - June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017, for use with the June 30, 2017 valuation.

The target allocation and best estimates of arithmetic real rates of return for each major class at June 30, 2017 are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Nominal Return |
|----------------------|-------------------|-----------------------------------|
| US Equity | 17.50 % | 5.97 % |
| International Equity | 17.50 % | 7.85 % |
| Global Bonds | 4.00 % | 2.63 % |
| Global Credit | 2.00 % | 3.63 % |
| High Yield | 7.00 % | 5.75 % |
| Emerging Market Debt | 5.00 % | 5.50 % |
| Private Credit | 10.00 % | 8.75 % |
| Real Estate | 5.00 % | 7.63 % |
| Absolute Return | 10.00 % | 5.63 % |
| Real Return | 10.00 % | 6.13 % |
| Private Equity | 10.00 % | 8.25 % |
| Cash Equivalent | 2.00 % | 1.88 % |
| Total | <u>100.00 %</u> | |

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Discount Rate

The discount rate used to measure the total pension liability for the plan was 6.25 percent for both nonhazardous and hazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net position liability would be if it were calculated using a discount rate that is one percentage point lower (5.25 percent) or one percentage point higher (7.25 percent) than the current rate (6.25 percent):

| | 1% Decrease (5.25%) | Current Discount Rate (6.25%) | 1% Increase (7.25%) |
|---|------------------------|-------------------------------------|------------------------|
| <i>Nonhazardous</i> | | | |
| City's proportionate share of the net pension liability | \$ 38,944 | \$ 30,879 | \$ 24,132 |
| Water & Sewer System's proportionate share of the net pension liability | \$ 131,587 | \$ 104,332 | \$ 81,535 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

Payables to the Pension Plan

At June, 30, 2018, the City owed \$1,312 in contractually required employee and employer contributions for the pension and opeb plan, primarily for the month ended June 30, 2018. Of this amount \$1,021 represents amounts due for the pension portion, and \$290 represents amounts due for the opeb portion. The obligation was paid within prescribed time limits.

Other Post Employment Benefit Plan (OPEB)

Plan Description

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement Systems (SPRS). The City is a participating employer of the CERS. Detailed information about the plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

The CERS Non-hazardous and Hazardous Insurance Funds are a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Non-hazardous and Hazardous Insurance Funds consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

| <u>Membership Status</u> | <u>Non-hazardous</u> |
|--|-----------------------|
| Inactive plan members currently receiving benefits | 32,161 |
| Inactive plan members entitled to but not yet receiving benefits | 8,946 |
| Active plan members | <u>80,409</u> |
| Total plan members | <u><u>121,516</u></u> |

Benefits provided

For members participating prior to July 1, 2003, the Insurance Fund pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Hazardous duty members are also eligible for an additional contribution for dependents based upon hazardous service only. For employees participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are shown below:

| <u>Service Period</u> | <u>% paid by Insurance Fund</u> |
|-----------------------|---------------------------------|
| 20 or more years | 100% |
| 15-19 years | 75% |
| 10-14 years | 50% |
| 4-9 years | 25% |
| Less than 4 years | 0% |

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008, are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. Nonhazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. The monthly health insurance contribution is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) prior to July 1, 2009, and by 1.5% annually from July 1, 2009. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. As of June 30, 2018, the employer contribution rate was 4.70% of members' non-hazardous salaries. The City contributed \$4,547 non-hazardous or 100% of the required contribution to the insurance fund for the year ended June 30, 2018.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits and the 1% contribution to 401(h) account is non-refundable.

Implicit Subsidy

The fully-insured premiums KRS pays for the KERS, CERS, and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows/(inflows) related to contributions made after the measurement date. The City's implicit subsidy for the year ending June 30, 2018, was \$568 for nonhazardous employees.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a net OPEB liability of \$46,439 for its proportionate share of the CERS net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled-forward to June 30, 2017 using generally accepted actuarial principles. The City's proportion of the net OPEB liability was determined using the City's actual contributions for the plan year ended June 30, 2017. This method is expected to be reflective of the City's long-term contribution effort. At June 30, 2018, the City's proportion was 0.02310 percent.

For the year ended June 30, 2018, the City recognized OPEB expense of \$8,864. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Net Amounts</u> |
|---|---|--|------------------------|
| Net difference between projected and actual earnings on OPEB plan investments | \$ - | \$ 2,195 | \$ (2,195) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 108 | (108) |
| Change of assumptions | 10,105 | - | 10,105 |
| Difference between expected and actual experience | - | 129 | (129) |
| Contributions subsequent to the measurement date | <u>5,116</u> | <u>-</u> | <u>5,116</u> |
| Total | <u>\$ 15,221</u> | <u>\$ 2,432</u> | <u>\$ 12,789</u> |

The \$5,116 reported June 30, 2018 deferred outflows of resources resulting from the City's contributions subsequent to the measurement date and the June 30, 2018 implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Years Ending</u> | <u>Amortization Deferred Outflows (Inflows)</u> |
|---------------------|---|
| June 30, 2019 | \$ 1,321 |
| June 30, 2020 | 1,321 |
| June 30, 2021 | 1,321 |
| June 30, 2022 | 1,321 |
| June 30, 2023 | 1,869 |
| Thereafter | <u>520</u> |
| Total | <u>\$ 7,673</u> |

Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity information in the June 30, 2017, actuarial valuation was based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems. However, subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

| | |
|-------------------------------|---|
| Valuation date | June 30, 2016 |
| Experience study | July 1, 2008 - June 30, 2013 |
| Actual cost method | Entry age normal |
| Amortization method | Level percentage of pay |
| Amortization period | 28 years, closed |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary increases | 3.05%, average |
| Payroll growth rate | 2.00%, CERS nonhazardous and hazardous |
| Investment rate of return | 6.25%, net of OPEB plan investment expense including inflation |
| Healthcare Trend Rates | |
| Pre - 65 | Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years |
| Post - 65 | Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years |

The mortality table used for active employees is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 - June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017, for use with the June 30, 2017, valuation.

The target allocation and best estimates of arithmetic nominal rates of return for each major class are summarized in the following table:

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

| Asset Class | Target Allocation | Long Term Expected Nominal Return |
|----------------------|-------------------|-----------------------------------|
| US Equity | 17.50 % | 5.97 % |
| International Equity | 17.50 % | 7.85 % |
| Global Bonds | 4.00 % | 2.63 % |
| Global Credit | 2.00 % | 3.63 % |
| High Yield | 7.00 % | 5.75 % |
| Emerging Market Debt | 5.00 % | 5.50 % |
| Private Credit | 10.00 % | 8.75 % |
| Real Estate | 5.00 % | 7.63 % |
| Absolute Return | 10.00 % | 5.63 % |
| Real Return | 10.00 % | 6.13 % |
| Private Equity | 10.00 % | 8.25 % |
| Cash Equivalent | 2.00 % | 1.88 % |
| Total | <u>100.00 %</u> | |

Discount Rate

The single discount rates of 5.84% for nonhazardous were used to measure the total OPEB liability as of June 30, 2017. For both hazardous and nonhazardous groups, the single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) of the unfunded actuarial accrued liability. Based on this assumption, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the actuarially determined contributions since any cost associated with the implicit subsidy will not be paid out of the retirement system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the City's proportionate share of the nonhazardous net OPEB liability calculated using the discount rate of 5.84 percent, as well as what the City's proportionate share of the nonhazardous net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.84 percent) or one percentage point higher (6.84 percent) than the current rate (5.84 percent):

| | <u>1% Decrease</u> | <u>Current</u> | <u>1% Increase</u> |
|--|--------------------|----------------------|--------------------|
| | <u>4.84%</u> | <u>Discount Rate</u> | <u>6.84%</u> |
| | | <u>5.84%</u> | |
| City's proportionate share of the net OPEB liability | \$ 59,091 | \$ 46,439 | \$ 35,910 |

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the healthcare cost trend rate

The following presents the City's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower and one percentage point higher than the current rates.

| <u>Non-hazardous</u> | <u>1% Decrease</u> | <u>Current Health Care Trend Rate</u> | <u>1% Increase</u> |
|--|--------------------|---------------------------------------|--------------------|
| City's proportionate share of the net OPEB liability | \$ 35,621 | \$ 46,439 | \$ 60,502 |

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

Payables to the OPEB Plan

At June, 30, 2018, the City owed \$1,312 in contractually required employee and employer contributions for the pension and opeb plan, primarily for the month ended June 30, 2018. Of this amount \$1,021 represents amounts due for the pension portion, and \$290 represents amounts due for the opeb portion. The obligation was paid within prescribed time limits.

12. TRANSFERS AND INTERFUND RECEIVABLE/PAYABLE BALANCES

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans).

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Similar activities in which a component unit is a party are captioned as "receivables/payables" for both the current and non-current portions between a component unit and the primary government. Balances to which a fiduciary fund is a party are treated as "external" receivables and payables.

Primary government interfund receivable/payable balances for operating expenses at June 30, 2018 were:

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

| | Interfund Receivables | Interfund Payables |
|--------------------------|--------------------------|-----------------------|
| <u>General Fund</u> | \$ 288,847 | \$ - |
| <u>Proprietary Funds</u> | | |
| Sewer Enterprise Fund | - | 289,735 |
| Water Enterprise Fund | 888 | - |
| Total | \$ 289,735 | \$ 289,735 |

Primary government transfers at June 30, 2018 were:

| | Transfers In | Transfers Out |
|------------------------------|-----------------|------------------|
| <u>Governmental Funds</u> | | |
| General Fund | \$ 57,806 | \$ 100 |
| <u>Special Revenue Funds</u> | | |
| Municipal Road Aid | - | 29,341 |
| Cemetery Maintenance Fund | - | 1,000 |
| Cemetery Perpetual Care Fund | 1,000 | - |
| <u>Proprietary Funds</u> | | |
| Sewer Enterprise Fund | 129 | 44,464 |
| Water Enterprise Fund | 16,099 | 129 |
| Total | \$ 75,034 | \$ 75,034 |

13. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENTS

The net positions of the governmental activities and business-type activities were restated to reflect implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. GASB Statement No. 75 changed how governments measure and report long-term obligations and annual costs associated with the other postemployment benefits (OPEB) they provide. Statement No. 75, replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB). Under the new standards GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement No. 75 to be applied retroactively.

The restatements of the beginning of the year net position is as follows:

| | Governmental | Water | Sewer |
|--|--------------|------------|--------------|
| Net position at July 1, 2017 | \$ 1,497,694 | \$ 866,016 | \$ 1,474,802 |
| Net OPEB liability | (7,849) | (13,528) | (10,909) |
| Deferred outflows of resources related to OPEB | 696 | 1,240 | 997 |
| Net position at July 1, 2017, as restated | \$ 1,490,541 | \$ 853,728 | \$ 1,464,890 |

The effect on the change in net position of the prior year is undeterminable.



Required Supplementary Information

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CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

County Employees Retirement System

Last Ten Fiscal Years (1)

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| <i>Nonhazardous</i> | | | | | |
| City's proportion of the net pension liability (asset) | 0.002310 % | 0.003788 % | 0.005113 % | 0.005068 % | 0.005068 % |
| City's proportion of the net pension liability (asset) | \$ 135,211 | \$ 186,501 | \$ 219,858 | \$ 164,000 | \$ 186,050 |
| City's covered employee payroll | \$ 96,746 | \$ 56,250 | \$ 89,228 | \$ 143,373 | \$ 98,116 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll | 139.76 % | 331.56 % | 246.40 % | 114.39 % | 189.62 % |
| Plan fiduciary net position as a percentage of the total pension liability (2) | 53.30 % | 55.50 % | 59.97 % | 66.80 % | 61.22 % |

(1) The amounts presented for the fiscal year were determined as of the prior fiscal year ending June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the City will present information for those years for which information is available.

(2) This will be the same percentage for all participant employers in the CERS plan.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

County Employees Retirement System

Last Ten Fiscal Years (1)

| | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <u>Nonhazardous</u> | | | | | | |
| Contractually required contributions | \$ 14,009 | \$ 7,847 | \$ 11,082 | \$ 15,160 | \$ 19,699 | \$ 12,382 |
| Contributions in relation to the contractually required contributions | <u>14,009</u> | <u>7,847</u> | <u>11,082</u> | <u>15,160</u> | <u>19,699</u> | <u>12,382</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered employee payroll | \$ 96,746 | \$ 56,250 | \$ 89,228 | \$ 118,906 | \$ 143,373 | \$ 98,116 |
| Contributions as a percentage of covered employee payroll | 14.48 % | 13.95 % | 12.42 % | 12.75 % | 13.74 % | 12.62 % |

(1) The amounts presented for the fiscal year were determined as of the prior fiscal year end. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the City will present information for those years for which information is available.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED JUNE 30, 2018

Changes of Benefit Terms:

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered structure for benefit accrual rates.
2. New retirement eligibility requirements.
3. Different rules for the computation of final average compensation.

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of Assumptions:

The following changes were adopted by the KRS Board of Trustees and reflected in the valuation performed as of June 30, listed below:

2015: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2017: The actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith Consulting. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017. They were also used to determine the Total Pension Liability and Net Pension Liability at June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- Salary increases were reduced from 4.00% to 3.05% on average.

Notes:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the City will present information for those years for which information is available.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
LAST TEN MEASUREMENT DATES (1)

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|--|----------------------|----------------------|
| <i><u>Nonhazardous</u></i> | | |
| City's proportion of the net OPEB liability (asset) | 0.002310 % | 0.003788 % |
| City's proportion of the net OPEB liability (asset) | \$ 43,439 | \$ 32,285 |
| City's covered employee payroll | \$ 96,746 | \$ 56,249 |
| City's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll | 44.90 % | 57.40 % |
| Plan fiduciary net position as a percentage of the total OPEB liability (2) | 52.40 % | 52.40 % |

(1) The amounts presented for the fiscal year were determined as of the prior fiscal year ending June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the City will present information for those years for which information is available.

(2) This will be the same percentage for all participant employers in the CERS plan.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF OPEB CONTRIBUTIONS
LAST TEN FISCAL YEARS (1)

| | 2018 | 2017 |
|---|-------------|-------------|
| Contractually required contributions | \$ 4,547 | \$ 2,661 |
| Contributions in relation to the contractually required contributions | 4,547 | 2,661 |
| Contribution deficiency (excess) | \$ - | \$ - |
| City's covered employee payroll | \$ 96,746 | \$ 56,249 |
| Contributions as a percentage of covered employee payroll | 4.70 % | 4.73 % |

Notes to Schedule:

| | |
|----------------------------------|--|
| Valuation Date | June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Amortization Method | Level percent of pay |
| Amortization period | 28 years, closed |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 3.25% |
| Salary increases | 4.00%, average |
| Payroll growth rate | 4.00% |
| Investment rate of return | 7.5% |
| Mortality | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) |
| Healthcare trend rates (Pre-65) | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years |
| Healthcare trend rates (Post-65) | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years |

Note (1): This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the City will present information for those years for which information is available.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS OPEB
FOR THE YEAR ENDED JUNE 30, 2018

Change of Assumptions

The following changes in assumptions were adopted by the KRS Board of Trustees and reflected in the valuation performed as of June 30, listed below:

2017: The actuarial valuation was performed as of June 30, 2016. Gabriel Roeder Smith Retirement Consulting rolled-forward from the valuation date to the plan's fiscal year end of June 30, 2017 using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total OPEB Liability and Net OPEB Liability as June 30, 2017. Specifically, a 2.30% price inflation assumption a decrease of 0.95% and an assumed rate of return of 6.25%.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled the City will present information for those years for which information is available.

Supplementary Information



CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

| | 2018 | | | Variance Favorable (Unfavorable) |
|---|------------------|------------------|------------------|--|
| | Budgeted Amounts | | Actual | |
| | Original | Final | | |
| <u>General Government Expenditures</u> | | | | |
| Salaries and wages | \$ 144,600 | \$ 144,600 | \$ 39,574 | \$ 105,026 |
| Miscellaneous | 59,600 | 59,600 | 28,710 | 30,890 |
| Utilities | - | - | 26,015 | (26,015) |
| Repairs and maintenance | 56,700 | 56,700 | 17,552 | 39,148 |
| Insurance | - | - | 13,842 | (13,842) |
| Retirement | - | - | 5,426 | (5,426) |
| Office supplies | - | - | 5,291 | (5,291) |
| Employee benefits | - | - | 4,835 | (4,835) |
| Professional fees | - | - | 3,441 | (3,441) |
| Payroll taxes | - | - | 3,284 | (3,284) |
| Fuel | - | - | 3,185 | (3,185) |
| Printing | - | - | 2,753 | (2,753) |
| Advertising | - | - | 1,956 | (1,956) |
| Telephone | - | - | 1,638 | (1,638) |
| Cemetery expense | - | - | 1,168 | (1,168) |
| Uniforms | - | - | 698 | (698) |
| Postage | - | - | 575 | (575) |
| Bank Charges | - | - | 362 | (362) |
| Dues and subscriptions | - | - | 246 | (246) |
| Total General Government | <u>260,900</u> | <u>260,900</u> | <u>160,551</u> | <u>100,349</u> |
| <u>Public Safety Expenditures</u> | | | | |
| Fire Department | | | | |
| Insurance | - | - | 7,604 | (7,604) |
| Utilities | - | - | 5,799 | (5,799) |
| Contracted services | - | - | 4,506 | (4,506) |
| Repairs and maintenance | - | - | 2,258 | (2,258) |
| Miscellaneous | - | - | 553 | (553) |
| Fuel and oil | - | - | 532 | (532) |
| Vehicle Repairs | - | - | 493 | (493) |
| Office supplies | - | - | 358 | (358) |
| Salaries and wages | 44,100 | 44,100 | - | 44,100 |
| Total Fire Department | <u>44,100</u> | <u>44,100</u> | <u>22,103</u> | <u>21,997</u> |
| Total Public Safety | <u>\$ 44,100</u> | <u>\$ 44,100</u> | <u>\$ 22,103</u> | <u>\$ 21,997</u> |

CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

| | 2018 | | | Variance Favorable (Unfavorable) |
|---|-------------------|-------------------|-------------------|--|
| | Budgeted Amounts | | Actual | |
| | Original | Final | | |
| <u>Public Streets Expenditures</u> | | | | |
| Utilities | \$ - | \$ - | \$ 21,041 | \$ (21,041) |
| Miscellaneous | - | - | 3,801 | (3,801) |
| Repairs and maintenance | <u>62,000</u> | <u>62,000</u> | <u>1,659</u> | <u>60,341</u> |
| Total Public Streets | <u>62,000</u> | <u>62,000</u> | <u>26,501</u> | <u>35,499</u> |
| <u>Library Expenditures</u> | | | | |
| Contract labor | 12,700 | 12,700 | 5,500 | 7,200 |
| Utilities | - | - | 487 | (487) |
| Repairs and maintenance | - | - | 160 | (160) |
| Office supplies | - | - | <u>1,533</u> | <u>(1,533)</u> |
| Total Library | <u>12,700</u> | <u>12,700</u> | <u>7,680</u> | <u>5,020</u> |
| <u>Debt Service</u> | <u>-</u> | <u>-</u> | <u>17,665</u> | <u>(17,665)</u> |
| <u>Capital Outlay</u> | | | | |
| General government | <u>-</u> | <u>-</u> | <u>133,751</u> | <u>(133,751)</u> |
| Total Capital Outlay | <u>-</u> | <u>-</u> | <u>133,751</u> | <u>(133,751)</u> |
| <u>Total General Fund Expenditures</u> | <u>\$ 379,700</u> | <u>\$ 379,700</u> | <u>\$ 368,251</u> | <u>\$ 11,449</u> |

CITY OF NORTONVILLE, KENTUCKY
WATER ENTERPRISE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Water Actual</u> | Variance |
|--|-------------------------|-------------------|---------------------|----------------------------|
| | <u>Original</u> | <u>Final</u> | | Favorable (Unfavorable) |
| <u>Operating Revenues</u> | | | | |
| Charges for service | \$ 245,200 | \$ 245,200 | \$ 286,220 | \$ 41,020 |
| Late fees | - | - | 11,162 | 11,162 |
| Miscellaneous | <u>225,700</u> | <u>225,700</u> | <u>1,173</u> | <u>(224,527)</u> |
| Total Operating Revenues | <u>470,900</u> | <u>470,900</u> | <u>298,555</u> | <u>(172,345)</u> |
| <u>Operating Expenses</u> | | | | |
| Salaries and wages | 201,536 | 201,536 | 61,245 | 140,291 |
| Contract service | - | - | 44,883 | (44,883) |
| Utilities | - | - | 43,092 | (43,092) |
| Depreciation | - | - | 29,540 | (29,540) |
| Repairs and maintenance | - | - | 16,946 | (16,946) |
| Insurance | - | - | 16,525 | (16,525) |
| Health benefits | - | - | 10,233 | (10,233) |
| Miscellaneous | 18,784 | 18,784 | 6,794 | 11,990 |
| Office supplies | - | - | 5,068 | (5,068) |
| Payroll taxes | - | - | 4,262 | (4,262) |
| Chemicals | - | - | 4,202 | (4,202) |
| Professional | - | - | 3,451 | (3,451) |
| Fuel and oil | - | - | 3,234 | (3,234) |
| Testing | - | - | 2,693 | (2,693) |
| Telephone | - | - | 2,503 | (2,503) |
| Postage | - | - | 2,281 | (2,281) |
| Bank charges | - | - | 1,455 | (1,455) |
| Vehicle maintenance | - | - | 987 | (987) |
| Dues and subscriptions | - | - | 501 | (501) |
| Advertising | - | - | 305 | (305) |
| Uniforms | - | - | 157 | (157) |
| Supplies | - | - | 60 | (60) |
| Retirement | - | - | (4) | 4 |
| Total Operating Expenses | <u>220,320</u> | <u>220,320</u> | <u>260,413</u> | <u>(40,093)</u> |
| <u>Income (Loss) from Operations</u> | <u>250,580</u> | <u>250,580</u> | <u>38,142</u> | <u>212,438</u> |
| <u>Nonoperating Revenues (Expenses)</u> | | | | |
| Investment income | - | - | 64 | 64 |
| Interest expense and fees | (40,280) | (40,280) | (32,831) | 7,449 |
| Bad debts | - | - | (1,281) | (1,281) |
| Total Nonoperating Revenues (Expenses) | <u>(40,280)</u> | <u>(40,280)</u> | <u>(34,048)</u> | <u>(6,232)</u> |
| <u>Income (Loss) Before Contributions and Transfers</u> | 210,300 | 210,300 | 4,094 | (206,206) |
| Capital contributions | - | - | 52,189 | 52,189 |
| Transfers in | - | - | 16,099 | 16,099 |
| Transfers out | - | - | (129) | (129) |
| <u>Change in Net Position</u> | <u>\$ 210,300</u> | <u>\$ 210,300</u> | 72,253 | <u>\$ (138,047)</u> |
| <u>Net Position - Beginning (as restated)</u> | | | <u>853,728</u> | |
| <u>Net Position - Ending</u> | | | <u>\$ 925,981</u> | |

CITY OF NORTONVILLE, KENTUCKY
SEWER ENTERPRISE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

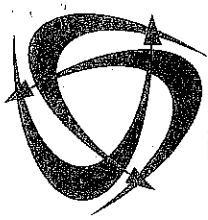
| | <u>Budgeted Amounts</u> | | <u>Sewer Actual</u> | Variance |
|--|-------------------------|-------------------|---------------------|----------------------------|
| | <u>Original</u> | <u>Final</u> | | Favorable (Unfavorable) |
| <u>Operating Revenues</u> | | | | |
| Charges for service | \$ 658,500 | \$ 658,500 | \$ 343,041 | \$ (315,459) |
| Late fees | - | - | 205,287 | 205,287 |
| Operating grants | - | - | 19,752 | 19,752 |
| Total Operating Revenues | <u>658,500</u> | <u>658,500</u> | <u>568,080</u> | <u>(90,420)</u> |
| <u>Operating Expenses</u> | | | | |
| Depreciation | - | - | 159,204 | (159,204) |
| Contract service | - | - | 65,646 | (65,646) |
| Repairs and maintenance | - | - | 58,753 | (58,753) |
| Utilities | - | - | 51,550 | (51,550) |
| Salaries and wages | 207,880 | 207,880 | 50,005 | 157,875 |
| Insurance | - | - | 27,637 | (27,637) |
| Chemicals | - | - | 18,371 | (18,371) |
| Testing | - | - | 14,799 | (14,799) |
| Health benefits | - | - | 7,426 | (7,426) |
| Miscellaneous | - | - | 6,963 | (6,963) |
| Payroll taxes | - | - | 3,472 | (3,472) |
| Professional | - | - | 3,349 | (3,349) |
| Office supplies | - | - | 3,220 | (3,220) |
| Fuel and oil | - | - | 3,185 | (3,185) |
| Postage | - | - | 2,234 | (2,234) |
| Telephone | - | - | 1,773 | (1,773) |
| Vehicle maintenance | - | - | 1,002 | (1,002) |
| Bank charges | - | - | 705 | (705) |
| Advertising | - | - | 503 | (503) |
| Dues and subscriptions | - | - | 501 | (501) |
| Uniforms | - | - | 157 | (157) |
| Retirement | - | - | (1,600) | 1,600 |
| Total Operating Expenses | <u>207,880</u> | <u>207,880</u> | <u>478,855</u> | <u>(270,975)</u> |
| <u>Income (Loss) from Operations</u> | <u>450,620</u> | <u>450,620</u> | <u>89,225</u> | <u>(361,395)</u> |
| <u>Nonoperating Revenues (Expenses)</u> | | | | |
| Investment income | - | - | 81 | 81 |
| Interest expense and fees | (153,120) | (153,120) | (123,675) | 29,445 |
| Bad debts | - | - | (530) | (530) |
| Total Nonoperating Revenues (Expenses) | <u>(153,120)</u> | <u>(153,120)</u> | <u>(124,124)</u> | <u>28,996</u> |
| <u>Income (Loss) Before Contributions and Transfers</u> | 297,500 | 297,500 | (34,899) | (332,399) |
| Capital contributions | - | - | 28,365 | 28,365 |
| Transfers in | - | - | 129 | 129 |
| Transfers out | - | - | (44,464) | (44,464) |
| <u>Change in Net Position</u> | <u>\$ 297,500</u> | <u>\$ 297,500</u> | (50,869) | <u>\$ (348,369)</u> |
| <u>Net Position - Beginning (as restated)</u> | | | 1,464,890 | |
| <u>Net Position - Ending</u> | | | <u>\$ 1,414,021</u> | |

CITY OF NORTONVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

| | <u>Special Revenue Funds</u> | | <u>Permanent Fund</u> | <u>Total Other Governmental Funds</u> |
|--|------------------------------|-----------------------------|--------------------------------|---------------------------------------|
| | <u>Municipal Aid</u> | <u>Cemetery Maintenance</u> | <u>Cemetery Perpetual Care</u> | |
| <u>Assets</u> | | | | |
| Cash equivalents | \$ <u>93,528</u> | \$ <u>24,424</u> | \$ <u>6,320</u> | \$ <u>124,272</u> |
| <u>Total Assets</u> | \$ <u>93,528</u> | \$ <u>24,424</u> | \$ <u>6,320</u> | \$ <u>124,272</u> |
| | | | | |
| <u>Liabilities and Fund Balance</u> | | | | |
| <u>Fund Balance</u> | | | | |
| Nonspendable-Perpetual Care | \$ - | \$ - | \$ 6,320 | \$ 6,320 |
| Restricted-Special Revenue Funds | <u>93,528</u> | <u>24,424</u> | <u>-</u> | <u>117,952</u> |
| Total Fund Balance | <u>93,528</u> | <u>24,424</u> | <u>6,320</u> | <u>124,272</u> |
| <u>Total Liabilities and Fund Balance</u> | \$ <u>93,528</u> | \$ <u>24,424</u> | \$ <u>6,320</u> | \$ <u>124,272</u> |

CITY OF NORTONVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Special Revenue Funds</u> | | <u>Permanent Fund</u> | <u>Total Other Governmental Funds</u> |
|---|------------------------------|-----------------------------|--------------------------------|---------------------------------------|
| | <u>Municipal Aid</u> | <u>Cemetery Maintenance</u> | <u>Cemetery Perpetual Care</u> | |
| <u>Revenues</u> | | | | |
| Cemetery lots | \$ - | \$ 6,600 | \$ - | \$ 6,600 |
| Interest | 55 | 4 | 4 | 63 |
| Total Revenues | <u>55</u> | <u>6,604</u> | <u>4</u> | <u>6,663</u> |
| <u>Expenditures</u> | | | | |
| Current | | | | |
| Cemetery Maintenance | - | - | 118 | 118 |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>118</u> | <u>118</u> |
| <u>Excess (Deficiency) of Revenues Over Expenditures</u> | <u>55</u> | <u>6,604</u> | <u>(114)</u> | <u>6,545</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers In | - | - | 1,000 | 1,000 |
| Transfers Out | (29,341) | (1,000) | - | (30,341) |
| Total Other Financing Sources(Uses) | <u>(29,341)</u> | <u>(1,000)</u> | <u>1,000</u> | <u>(29,341)</u> |
| <u>Net Change in Fund Balance</u> | <u>(29,286)</u> | <u>5,604</u> | <u>886</u> | <u>(22,796)</u> |
| <u>Fund Balance - Beginning</u> | <u>122,814</u> | <u>18,820</u> | <u>5,434</u> | <u>147,068</u> |
| <u>Fund Balance - Ending</u> | <u>\$ 93,528</u> | <u>\$ 24,424</u> | <u>\$ 6,320</u> | <u>\$ 124,272</u> |



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor Scotty Harvey
And Members of the City Council
City of Nortonville, Kentucky
Nortonville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Nortonville, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Nortonville, Kentucky's basic financial statements, and have issued our report thereon dated October 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Nortonville, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Nortonville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Nortonville, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2018-1 through 2018-5)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Nortonville, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a

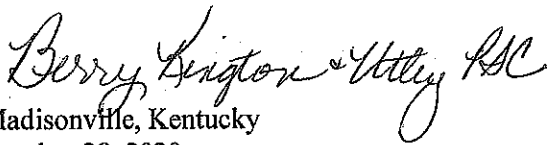
direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Nortonville, Kentucky's Response to Findings

City of Nortonville, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Nortonville, Kentucky's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Madisonville, Kentucky
October 28, 2020

CITY OF NORTONVILLE, KENTUCKY
CURRENT YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2018-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We concur with the finding but it is not economically feasible to hire additional employees.

2018-2 No Written Standard Operating Policy

Condition

There is an absence of appropriate written statements of procedure. These statements should address all financial processes.

Criteria

A prudent control environment requires that a standard operating procedure be in place.

Effect

Delays in operations due to a lack of cross-training could result from one or more of the office staff being absent.

Cause

Lack of oversight concerning job descriptions and general control policies.

Recommendation

We recommend that management create standard operating procedures and cross train its employees.

Response

We concur with the finding.

CITY OF NORTONVILLE, KENTUCKY
CURRENT YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2018-3 Budget Lacks Detail

Condition

There is an absence of a detailed line item budget and failure to adopt a current budget.

Criteria

A prudent control environment requires that a detailed line item budget be present to inform the citizens of managements intentions for the current year's resources.

Effect

A proper budget shows exactly where the City's resources will come from and where the City's resources will be spent. This is both informative for the citizens and a tool to be utilized by management.

Cause

A lack of detail was given to the budget by management due to a transition in power and a lack of attention to detail.

Recommendation

We recommend completing detailed budgets for all future years and making them accessible to the public.

Response

We concur with the finding.

2018-4 Management Lacks Financial Information

Condition

There is an absence of detailed reports being supplied to management to make informed decisions.

Criteria

A prudent control environment requires that detailed reports be given to management on a regular basis in order for management to make informed decisions. Also, state compliance (K.R.S 83A.150) requires city management provide counsel with operating statements including budgetary comparisons for each fund included in the annual budget at least quarterly.

Effect

Detailed reports show exactly how the City's resources are being used and how their decisions to use such resources affect the financial statements.

Cause

A lack of detail was given to management about the current financial position of the City. Management was only supplied with cash balances when making decisions about how to use the City's resources.

Recommendation

We recommend providing operating statements and presenting budget to actual comparison reports on at least a quarterly basis as required by K.R.S 83A.150.

Response

We concur with the finding.

2018-5 Council Meeting Minutes Supplemental Documentation Archival

Condition

There is an absence of supplemental documentation archival of the City Council meeting minutes.

CITY OF NORTONVILLE, KENTUCKY
CURRENT YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

Criteria

A prudent control environment requires that detailed supplemental information and/or historical reports discussed during Council meetings be attached to City Council meeting minutes.

Effect

Detailed records of City Council meetings show exactly how the City's resources have been used and how the Council reached their decisions.

Cause

The City Council meeting minute summaries are stored in a binder without any additional supplemental information.

Recommendation

We recommend attaching supplemental information and/or historical reports discussed during Council meetings with the minute summaries.

Response

We concur with the finding.

CITY OF NORTONVILLE, KENTUCKY
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2017-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We concur with the finding but it is not economically feasible to hire additional employees.

2017-2 No Written Standard Operating Policy

Condition

There is an absence of appropriate written statements of procedure. These statements should address all financial processes.

Criteria

A prudent control environment requires that a standard operating procedure be in place.

Effect

Delays in operations due to a lack of cross-training could result from one or more of the office staff being absent.

Cause

Lack of oversight concerning job descriptions and general control policies.

Recommendation

We recommend that management create standard operating procedures and cross train its employees.

Response

We concur with the finding.

CITY OF NORTONVILLE, KENTUCKY
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2017-3 Inventory Improperly Taken

Condition

There is an absence of appropriate utilization of inventory control for consumable items.

Criteria

A prudent control environment requires that consumable items be inventoried for maintenance and repair issues that arise.

Effect

Inventory was not being monitored, therefore, there is not a proper accounting of consumable items on hand.

Cause

Lack of attention to detail regarding monitoring items that should be inventoried.

Recommendation

We recommend a full inventory count for consumable items on hand and the establishment of a monitoring system.

Response

We concur with the finding.

2017-4 Budget Lacks Detail

Condition

There is an absence of a detailed line item budget and failure to adopt a current budget.

Criteria

A prudent control environment requires that a detailed line item budget be present to inform the citizens of managements intentions for the current year's resources.

Effect

A proper budget shows exactly where the City's resources will come from and where the City's resources will be spent. This is both informative for the citizens and a tool to be utilized by management.

Cause

A lack of detail was given to the budget by management due to a transition in power and a lack of attention to detail.

Recommendation

We recommend completing detailed budgets for all future years and making them accessible to the public.

Response

We concur with the finding.

CITY OF NORTONVILLE, KENTUCKY
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2017-5 Management Lacks Financial Information

Condition

There is an absence of detailed reports being supplied to management to make informed decisions.

Criteria

A prudent control environment requires that detailed reports be given to management on a regular basis in order for management to make informed decisions. Also, state compliance (K.R.S 83A.150) requires city management provide counsel with operating statements including budgetary comparisons for each fund included in the annual budget at least quarterly.

Effect

Detailed reports show exactly how the City's resources are being used and how their decisions to use such resources affect the financial statements.

Cause

A lack of detail was given to management about the current financial position of the City. Management was only supplied with cash balances when making decisions about how to use the City's resources.

Recommendation

We recommend providing operating statements and presenting budget to actual comparison reports on at least a quarterly basis as required by K.R.S 83A.150.

Response

We concur with the finding.

2017-6 Council Meeting Minutes Supplemental Documentation Archival

Condition

There is an absence of supplemental documentation archival of the City Council meeting minutes.

Criteria

A prudent control environment requires that detailed supplemental information and/or historical reports discussed during Council meetings be attached to City Council meeting minutes.

Effect

Detailed records of City Council meetings show exactly how the City's resources have been used and how the Council reached their decisions.

Cause

The City Council meeting minute summaries are stored in a binder without any additional supplemental information.

Recommendation

We recommend attaching supplemental information and/or historical reports discussed during Council meetings with the minute summaries.

Response

We concur with the finding.